



TENNESSEE REGULATORY AUTHORITY

460 James Robertson Parkway
Nashville, Tennessee 37243
Telephone (615) 741-2904

NOTICE

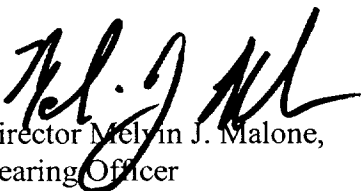
DOCKET NO. 00-00523

IN RE: Generic Docket Addressing Rural Universal Service

DATE: September 20, 2001

The attached document has been filed with the Tennessee Regulatory Authority on behalf of the members of the Coalition of Small LECs and Cooperatives. Any party that chooses to file comments in response to the attached document should do so on or before 2:00 p.m., Monday, October 22, 2001.

FOR THE TENNESSEE REGULATORY AUTHORITY:


Director Melvin J. Malone,
Hearing Officer

cc: Parties of Record

K R A S K I N, L E S S E & C O S S O N, L L P

ATTORNEYS AT LAW
2120 L Street, N.W., Suite 520
Washington, D.C. 20037

TELEPHONE (202) 296-8890

TELECOPIER (202) 296-8893

September 4, 2001

Melvin Malone, Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: Impact of Federal Regulatory Developments on the Provision of
Universal Service in Rural Telephone Company Service Areas

Dear Director Malone:

On behalf of the members of the Coalition of Small LECs and Cooperatives (the "Small Company Coalition;" see attached list of member companies), I am writing to you with respect to issues and concerns that affect the provision of universal service in rural areas of Tennessee. Although I am writing to you because of your role as hearing officer in the "Generic Docket Addressing Rural Universal Service," Docket No. 00-00523, this correspondence addresses matters that are outside of the scope of the issues presently under consideration in that pending proceeding.

Subsequent to the initiation of Docket No. 00-00523 and the filing of initial briefs and responses, the Federal Communications Commission (FCC) has undertaken or initiated action in several proceedings which may have direct and significant impact on the operations of rural incumbent Tennessee local exchange carriers. A common theme resonates through each of these proceedings: the consideration of changes in existing federal rules and regulations that determine how a rural LEC establishes its rates and recovers its investment and expenses related to the provision of universal service.

Set forth below is a brief identification of several of these proceedings and the matters under consideration:

1. Docket No. 96-45, "In the Matter of Federal-State Joint Board on Universal Service," wherein universal service funding of rural company service areas is under consideration.

2. Docket No. 00-256 "In the Matter of Multi-Association Group (MAG) Plan for Regulation of Interstate Service of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange

Carriers" wherein the appropriate level of interexchange access charges and the recovery of rural LEC interstate costs is under consideration.

3. CC Docket No. 99-68, "In the Matter of Inter-Carrier Compensation for ISP-Bound Traffic" wherein intercarrier compensation for termination of internet traffic and the recovery of associated costs is under consideration together with interim implications for all interconnection services.

4. CC Docket No. 01-92, "In the Matter of Developing a Unified Intercarrier Compensation Regime" wherein the elimination of intercarrier compensation for the provision of interconnection services is under consideration.

Individually and collectively, the outcome of these proceedings at the FCC will, in brief, likely place increasing pressures on rural companies to raise local basic service rates in order to offset the resulting losses in revenues that are presently derived from the provision of interstate interexchange access and interconnection services and federal universal service mechanisms. Pressures to reduce intrastate access charge levels will undoubtedly not only follow, but will likely be exacerbated by arbitrage opportunities resulting from regulatory changes (e.g., resulting disparity in interstate and intrastate access charges will encourage interexchange carriers to avoid intrastate access services).

From the perspective of the Coalition members, their service areas and customers, it appears that the proceedings under consideration in the Federal arena are geared to the facts and circumstances that surround large carriers and large customers. Accordingly, we are witnessing the emergence of a simplistic federal regulatory response that ignores both the historic foundation of the existing federal-state regulatory LEC cost recover system and the current and continuing conditions applicable to the provision of universal service in rural areas.

History taught - and both federal and state regulators traditionally recognized - that, as a matter of both sound public policy and law, the costs of providing universal service in rural areas could not reasonably be fully borne by rates charged directly to rural end user customers. As a constructive alternative, a rate design system evolved whereby a significant portion of these costs have been recovered through a series of mechanisms including access charges, interconnection service charges, and universal service funding. Each of these mechanisms is essentially based upon the recognition that a rural LEC's universal service network is of value not only to the rural customer that resides in the rural service area, but also to all individuals who utilize the public switched network and thereby have the ability to send and receive telecommunications to and from the rural subscriber.

The proposals under consideration at the FCC in the proceedings cited above generally overlook or set aside the public policy value of the existing rate design cost recovery mechanisms in order to address the issues of the larger carriers that do not focus service efforts on the customers residing in rural service areas. The objective of these carriers, with the implicit and explicit encouragement of the FCC, is to eliminate intercarrier charges irrespective of the impact on basic service rates.

On the basis of inquiries and comments from rural carriers throughout the country, our office is convinced that the FCC's consideration of these proposals is already producing a perverse result in rural America by discouraging infrastructure investment. Rural carriers are increasingly concerned that the policies contemplated by the FCC will severely limit any reasonable opportunity to recover the

investments and costs associated with the provision of advanced services in rural areas without inordinate increases in charges to rural subscribers.

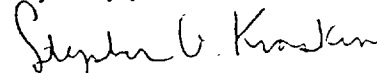
Within Tennessee, prior issues and events (e.g., the primary carrier plan issues and changes in carrier settlements) have already established the reality of this concern for the rural LECs. In addition to the intrastate access service issues with which the Authority is already familiar, many of the Coalition members are investigating facts which support the conclusion that connecting carriers may presently engage in interconnection practices that enable them to obtain transport and termination on the rural LEC's network without taking responsibility for compensation of the rural LEC for the provision of its services.

These prior and developing situations, together with the pending FCC proceedings, have resulted in growing concern among the members of the Coalition. Accordingly, the Coalition respectfully requests that the Authority initiate a process to examine and act on these matters. Procedurally, the Coalition is uncertain whether it is most efficient to request the initiation of a new proceeding or to incorporate these issues into Docket No. 00-00523. Because of the nature of these issues and their potential impact on the provision of Universal Service in the rural areas of Tennessee, the Coalition recognizes that it may be appropriate for the TRA to consider the expansion of the scope of Docket No. 00-00523 to incorporate consideration of these matters. In this regard, an additional round of comments could be utilized to freshen the record and to develop proposals to ensure the provision of universal service in rural Tennessee at reasonable rates.

In addition, the Coalition offers to work with TRA staff and other parties to develop and conduct a workshop where all parties could meet in an informal setting to fully explore and consider these issues. While the workshop format would, at minimum, afford a non-adversarial opportunity for parties to fully communicate their concerns and positions, it may also provide a forum that could result in the development of a consensus position that could subsequently be brought to the Authority for approval and implementation in order to serve best the interests of all Tennessee telecommunications users and carriers. This workshop format has been utilized successfully by the TRA to address other matters in a manner that brings parties with various perspectives together to work efficiently on issues such as Docket 00-00873, "Regulations for Telephone Service Providers."

If you should have any questions or need for additional information regarding the federal proceedings addressed above or any other aspect of this letter, please call me at your convenience at 202-296-9055. In the event that you and the TRA elect to proceed with the workshop proposed above, the Coalition member representatives and I would be pleased to offer our assistance in any way that you and the Authority would deem useful. On behalf of the Coalition, your consideration of these matters is greatly appreciated.

Very truly yours,



Stephen G. Kraskin

"The Coalition of Small LECs and Cooperatives"

Ardmore Telephone Company, Inc.
Ben Lomand Rural Telephone Cooperative, Inc.
Bledsoe Telephone Cooperative
CenturyTel of Adamsville, Inc.
CenturyTel of Claiborne, Inc.
CenturyTel of Ooltewah-Collegedale, Inc.
Concord Telephone Exchange, Inc.
Crockett Telephone Company, Inc.
DeKalb Telephone Cooperative, Inc.
Highland Telephone Cooperative, Inc.
Humphreys County Telephone Company
Loretto Telephone Company, Inc.
North Central Telephone Cooperative, Inc.
Peoples Telephone Company
Tellico Telephone Company, Inc.
Tennessee Telephone Company
Twin Lakes Telephone Cooperative Corporation
United Telephone Company
West Tennessee Telephone Company, Inc.
Yorkville Telephone Cooperative